U.S. Chamber of Commerce

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June 20, 2023

The Honorable Kathi Vidal
Under Secretary of Commerce for Intellectual Property
and Director, United States Patent and Trademark Office
600 Dulany Street
Alexandria, VA 22314

Re: Advance Notice of Proposed Rulemaking, United States Patent and Trademark Office, Department of Commerce; Changes Under Consideration to Discretionary Institution Practices, Petition Word-Count Limits, and Settlement Practices for America Invents Act Trial Proceedings Before the Patent Trial and Appeal Board (88 Fed. Reg. 24,503-24,518, April 21, 2023)

Dear Director Vidal:

The U.S. Chamber of Commerce submits these comments related to proposed changes to America Invents Act ("AIA") proceedings before the Patent Trial and Appeal Board ("PTAB"). The Chamber's broad and diverse membership represents companies across multiple technology and industry sectors; accordingly, these comments reflect a diversity of interests in the PTAB's operations and procedures.

Reserving the right to comment further in the event of a rulemaking, when hopefully many of these concepts are further developed, the Chamber's immediate comments are directed to two initial points. First, the Chamber supports proposed requirements for the disclosure of third-party funding in PTAB related proceedings; Second, the Chamber is concerned by the otherwise sheer scope and complexity of the other proposals in the advanced notice of proposed rulemaking ("ANPRM").

I. Disclosure of Third-Party Funding of PTAB Proceedings

The Chamber supports the proposed requirement that patent holders and post-grant proceeding petitioners disclose third-party sources of funding (including attorney fees or expenses) in proceedings before the PTAB and district courts. As explained in greater detail below, given the pervasive (but secretive) influence of third-party funding in patent disputes, the proposed disclosure requirement would: (1) promote the real-party-in-interest requirement for post-grant proceedings; (2) discourage the use of post-grant proceedings for improper purposes; (3) minimize potential conflicts of interest; and (4) shed light on whether foreign actors are exploiting PTAB proceedings.

a. Background Of The AIA And Increasing Influence Of Third-Party Funding In Patent Disputes

In 2011, Congress enacted the AIA in part to create a series of structural reforms in the then-existing administrative patent review process to "provide a less-expensive alternative to district court litigation" while "also protecting against patentee harassment."[1] One of the main policy goals behind the legislation was to create a "more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs."[2]

In the twelve years since passage of the AIA, the amount of litigation being funded by non-party investors has grown by leaps and bounds. According to former U.S. Senator Patrick Leahy, "[l]itigation funders have $13.5 billion in assets under management in the U.S."[3] Of most relevance here, these third-party litigation funders "have zeroed in on patent litigation."[4] In 2022 alone, more than 20% of new litigation funding capital was devoted to patent litigation,[5] and former U.S. Attorney General Michael Mukasey recently estimated that a full quarter of all U.S. patent cases are being financed by third parties.[6] Although the extent of third-party funding in PTAB proceedings cannot be confirmed, the extensive influence of outside funding in litigated patent cases strongly suggests that this form of investment is being used in these administrative actions as well.

b. Disclosure Of Third-Party Funding Arrangements Would Promote Fair And Expeditious Resolution Of AIA Disputes

Despite the increasing prevalence of third-party funding in patent disputes, PTAB adjudicators have no way of knowing whether such an investment exists in a particular post-grant challenge. This is so because, as with civil patent lawsuits, there is presently no statutory or administrative requirement that petitioners or patent owners before the PTAB disclose whether they are being funded by third parties. The USPTO's proposal would merely require the disclosure of any third-party funding that petitioners or patent owners receive in both PTAB proceedings and related civil actions. Requiring greater transparency of third-party funding in these administrative actions would mitigate abusive, duplicative, and inefficient patent dispute proceedings in the following ways:

First, disclosure of third-party funding would effectuate the real-party-in-interest requirement for post-grant proceedings and minimize excessive and potentially meritless

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1 *Id.*

2 *Id.*

3 https://news.bloomberglaw.com/us-law-week/shine-light-on-third-party-litigation-funding-of-us-patents.

4 *Id.*

5 *See id.*

6 *See* Michael B. Mukasey, "Patent Litigation Is a Matter of National Security," THE WALL STREET JOURNAL, Sept. 11, 2022, https://www.wsj.com/articles/patent-litigation-is-a-matter-of-national-security-chips-and-science-act-intellectual-property-theft-lawsuit-technology-scammers-manufacturing-11662912581.

patent challenges. The USPTO demands that each party seeking to invalidate a patent under the AIA review processes identify all real parties in interest.[7] The purpose of such a requirement is two-fold: (1) to reduce duplicative reviews by limiting similar petitions brought by related entities and (2) to clarify the scope of estoppel stemming from AIA adjudications. Some companies defending against patent infringement lawsuits have sought to circumvent initial PTAB rulings by encouraging related entities or co-defendants to file their own petitions retreading the same grounds already reviewed in the prior PTAB proceeding. For example, in one high-profile PTAB dispute, the adjudicators declined to institute review where a party brought no fewer than three petitions to invalidate a patent that had already been reviewed in a separate, earlier petition brought by its co-defendant in an infringement action in federal court.[8] There, the "complete overlap in the challenged claims and the significant relationship between" the two petitioners weighed heavily in favor of declining to review duplicative arguments seeking invalidation.[9]

Absent a disclosure requirement, third-party funding can essentially accomplish the same improper objective by enabling a related entity or co-party in litigation to bankroll a patent challenge before the PTAB in total secrecy, as they would not serve as the named challenger in the proceeding. Requiring patent challengers in disputes before the PTAB to disclose the identity of those funding their challenges may temper this risk, reduce the number of "second bites" at the same proverbial apple and thereby limit excessive, costly disputes over the validity of patents. At the very least, it would ensure that PTAB adjudicators have the information necessary to determine who or what entity is really seeking review of the patent at issue. In short, a third-party funding disclosure requirement would prevent circumvention of the real-party-in-interest requirement and promote the overall purpose of AIA proceedings.

Second, the disclosure of third-party funding sheds light on who or what entity is driving the post-grant proceedings and whether the review is being employed for a potentially improper purpose. AIA proceedings are designed to ensure that any disposition of a challenge takes account of the public interest.[10] However, recent events have confirmed that some third parties file PTAB petitions not to vindicate this key objective but to extort litigants for personal profit. The *OpenSky* controversy illustrates this growing trend. In that matter, the Director of the USPTO found that a third-party petitioner unconnected to two parties in an infringement action in civil court requested PTAB review of certain patents held by one of the litigants.[11] The "petitioner," OpenSky, then clandestinely contacted the parties in the underlying patent dispute to offer to "throw" the case to whichever side paid it the highest amount of money.[12]

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7 *See* Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,759 (Aug. 14, 2012).

8 *Valve Corporation v. Electronic Scripting Prods., Inc.*, Case IPR2019-00064, -00065, -00085 (PTAB May 1, 2019) (Paper 10) (precedential).

9 *Id.*

10 *See* 88 Fed. Reg. 24504 (noting post-grant proceedings help "protect the public's paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.") (citation omitted).

11 *See* https://news.bloomberglaw.com/ip-law/opensky-abuse-sanctions-add-new-weapons-in-patent-challenges.

12 *See id.*

The filing of such a challenge was clearly not done to serve the needs of the public; rather, this outsider solely wished to extract payment from legitimate litigants.

Third-party funding threatens to further undermine the public interest aims of the AIA by converting PTAB proceedings into trading floors where post-grant challenges are initiated solely for personal profit. In other words, third-party funding is simply another avenue for outsiders motivated by pecuniary interests to spur patent challenges, irrespective of the merits underlying those petitions. The proposed disclosure requirement would ensure that PTAB judges remain fully apprised of those purely economic interests.

Third, identifying those with a contingent financial interest in disputes before PTAB judges would help reduce potential conflicts of interest given that some funders are publicly traded, and those that are not may be comprised of complicated networks of owners and entities. These concerns are not merely theoretical. There is already some concern that PTAB judges who preside over petitions brought by parties they previously represented in litigation prior to their appointment have an actual (or perceived) conflict of interest.[13] Outside funding adds a new layer to the conflicts analysis. After all, adjudicators may ***unwittingly*** preside over cases in which they themselves have a financial interest through their investment in the outside funder. These same adjudicators could also be hearing challenges being funded by entities controlled or run by individuals with whom the judges have a personal or familial relationship. Disclosure of third-party funding would unearth and likely reduce such potential conflicts.

Fourth, disclosure of third-party funding in PTAB proceedings would also educate the public and policymakers on the extent to which foreign actors are involved in these administrative actions. Sen. John Kennedy (R.-La.) recently wrote a letter to Chief Justice of the United States John Roberts and U.S. Attorney General Merrick Garland highlighting that "few safeguards exist . . . to prevent foreign adversaries from participating in civil litigation as an undisclosed third-party."[14] Sen. Kennedy warned that by merely financing litigation "in the United States against influential individuals, corporations, or highly sensitive sectors, a foreign actor can advance its strategic interests in the shadows." The same concerns apply equally to foreign investment in PTAB proceedings, which allow for limited discovery and could potentially be exploited by foreign actors for the purpose of acquiring highly sensitive intellectual property information.[15] Indeed, there is no reason to believe that these administrative actions are immune to foreign investment, particularly given the lax standing requirements that apply in these proceedings. Adjudicators and patent holders have a right to know whether foreign governments (including potential adversaries) are using the USTPO post-grant proceedings to undercut American interests, and disclosing the existence of external funding will help judges answer that fundamental question.

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13 *See* https://ipwatchdog.com/2s017/04/28/conflicts-of-interest-ptab-apple/id=82628/.

14 U.S. Senator John Kennedy, *Kennedy urges Roberts, Garland to take action to protect national security from foreign actors meddling in U.S. courts* (Jan. 9, 2022), https://www.kennedy.senate.gov/public/press-releases?ID=1FBC312C-94B8-409B-B0A3-859A9F35B9F5.

15 *See* 35 U.S.C.A. § 316(a)(5); 326(a)(5).

In sum, as the ANPRM suggests, requiring petitioners and patent-holders to disclose the existence of third-party funding will further the policy aims of post-grant proceedings as enacted by the AIA. Not only will such a requirement reduce duplicative and vexatious proceedings, it will uncover potentially troubling conflicts of interest and identify foreign sources of influence seeking to intervene in U.S. interests.

II. Broad Scope and Complexity of ANPRM Proposals

Beyond the proposal for disclosure of TPLF, however, the Chamber is concerned with the ANPRM's overall scope. Specifically, the Chamber is concerned that such broad changes, if effectuated, may make litigation before the PTAB operationally difficult and even less predictable, thereby potentially undermining the legal certainty needed by innovators and technology adopters, alike. For the following reasons, the Chamber believes that the non-TPLF related proposals envisioned by the ANPRM may undermine predictability if effectuated in a final rule.

First, many of the concepts, terms, and standards contemplated by the ANPRM appear vague, overbroad, or subject to ongoing change. For example, throughout the ANPRM, the agency indicates that it will use a "compelling merits" standard in several scenarios to determine whether to institute a PTAB proceeding. While the ANPRM does define what constitutes a compelling merit, it does so not by reference to any statute but instead via reference to a single precedential PTAB decision and a Director's memorandum. Precedential decisions and memoranda can and do change, meaning the definition of "compelling merit" and how that definition is applied in the various institution scenarios envisioned by the ANPRM maychange. In addition, at several points throughout the ANPRM, the USPTO specifically asks stakeholders to define specific terms and concepts that will be utilized in making institutional decisions, further muddying the anticipated effect of the proposals.

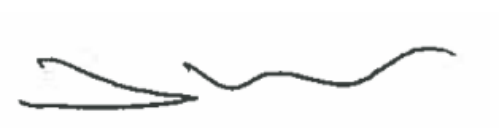
Second, the Chamber believes that many of the concepts embodied in the ANPRM could prove to be operationally unworkable. Some proposed changes attempt to articulate what appears to be a clear rule on when an institution may or may not occur. Facially, this is the type of certainty—independent of any policy consideration—that businesses need to make decisions. However, these same rules then contain multiple contemplated exceptions to their application based on various contextual factors, including potential litigation and the entity's size and financial status. Alleged bright-line rules containing numerous exceptions do not allow businesses to know if an institution against them will occur. If anything, the multitude of contemplated rules on the institutions, each with its various exceptions, seem more likely to benefit litigators than inventors and end-users.

All things being equal, the Chamber strongly supports the goal of the ANPRM to add predictability, certainty, and reliability in PTAB proceedings to encourage investments in long-term, high-risk, capital-intensive innovation. However, the wide-ranging and broad scale of the proposals in the ANPRM will not achieve this goal. If the USPTO proceeds with a rulemaking, we urge scaling back the breadth of the proposals and carefully reviewing whether proposals are

consistent with the balance struck by Congress in the AIA. The Chamber respectfully urges the USPTO to require all parties to disclose third-party sources of funding in PTAB related proceedings, and the Chamber looks forward to commenting further on concrete rulemaking proposals that may emerge from this process.

Thank you for your attention to these views.

Sincerely,



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